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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10-Q

Quarterly Report Under Section 13 or 15 (d)
of the Securities Exchange Act of 1934

For Quarter Ended May 31, 1992

Commission File Number 0-14587

GENETICS INSTITUTE, INC.
(Exact name of registrant as specified in its charter)

Delaware	04-2718435
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

87 CambridgePark Drive, Cambridge, MA	02140
(Address of principal executive offices)	(zip code)

Registrant's telephone number, including area code (617) 876-1170

None
(Former name, former address and former fiscal year if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

24,158,729 shares of Common Stock, par value $.01 (including 8,980,970 shares represented by Depositary Shares) were outstanding on July 6, 1992.

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GENETICS INSTITUTE, INC.

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GENETICS INSTITUTE, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF MAY 31, 1992 AND NOVEMBER 30, 1991

(In thousands except share data)

ASSETS

	May 31, 1992 (unaudited)	November 30, 1991
CURRENT ASSETS:		
Cash and cash equivalents	$268,337	$ 20,549
Marketable securities	69,992	50,883
Accounts receivable	7,536	13,660
Unbilled services	475	143
Inventories (Note 4)	18,871	19,053
Other current assets	2,375	3,501
Total Current Assets	367,586	107,789
INVESTMENTS IN AFFILIATES	26,311	26,580
PROPERTY, PLANT AND EQUIPMENT, AT COST:		
Land	3,033	3,033
Building and building improvements	37,842	37,227
Equipment, furniture and fixtures	28,243	27,183
Leasehold improvements	10,621	10,230
Less - accumulated depreciation and amortization	(30,044)	(27,328)
Net Property, Plant and Equipment	49,695	50,345
OTHER ASSETS (Note 8)	8,392	7,563
	$451,984	$192,277

The accompanying notes are an integral part of these financial statements.

GENETICS INSTITUTE, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF MAY 31, 1992 AND NOVEMBER 30, 1991

(In thousands except share data)

LIABILITIES AND SHAREHOLDERS' EQUITY

	May 31, 1992 (unaudited)	November 30, 1991
CURRENT LIABILITIES:		
Accounts payable	$ 3,333	$ 4,596
Accrued payroll and related items	3,754	2,768
Other accrued expenses	7,817	9,581
Reserve for patent-related damages (Note 5)	11,000	11,000
Total Current Liabilities	25,904	27,945
CONTINGENCIES (Notes 5 and 6)		
SHAREHOLDERS' EQUITY: (Note 2)		
Capital stock -		
Series preferred stock, par value $1.00; authorized 1,555,000 shares; Convertible exchangeable preferred stock, issued and outstanding 1,147,205 shares and 1,150,000 shares at May 31, 1992 and November 30, 1991, respectively	1,147	1,150
Common stock, par value $.01; authorized 50,000,000 shares; issued and outstanding 24,155,429 shares and 14,620,113 shares at May 31, 1992 and November 30, 1991, respectively	242	146
Additional paid-in capital	574,775	273,362
Accumulated deficit	(150,084)	(110,326)
Total Shareholders' Equity	426,080	164,332
	$451,984	$192,277

The accompanying notes are an integral part of these financial statements.

GENETICS INSTITUTE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND SIX MONTHS ENDED MAY 31, 1992 AND MAY 31, 1991

(unaudited - in thousands except per share data)

	Three Months Ended May 31,		Six Months Ended May 31,	
	1992	1991	1992	1991 (restated - Note 1)
REVENUE:				
Collaborative research and development	$ 9,418	$ 10, 198	$ 21,278	$ 18,076
Royalties	6,438	4,121	12,580	8,201
Total Revenue	15,856	14,319	33,858	26,277
OPERATING EXPENSES:				
Research and development	19,874	16,482	38,443	32,121
General and administrative	4,095	2,883	7,692	5,414
Amortization of warrants (Note 8)	658	792	1,066	792
Special charge (primarily merger-related in 1992 and patent-related in 1991--Notes 2 and 5)	-	-	30,000	11,000
Total Operating Expenses	24,627	20,157	77,201	49,327
LOSS FROM OPERATIONS	(8,771)	(5,838)	(43,343)	(23,050)
OTHER INCOME (EXPENSE), NET:				
Interest income	4,527	1,237	7,290	2,523
Other, net	(725)	(314)	(1,408)	(650)
Total Other Income, Net	3,802	923	5,882	1,873
NET LOSS	$ (4,969)	$ (4,915)	$ (37,461)	$ (21,177)
DIVIDENDS ON PREFERRED STOCK	$ (1,147)	$ (1,150)	$ (2,297)	$ (2,300)
NET LOSS APPLICABLE TO COMMON SHARES	$ (6,116)	$ (6,065)	$ (39,758)	$ (23,477)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	24,147	14,551	21,770	14,513
NET LOSS PER COMMON SHARE	$ (.25)	$ (.42)	$ (1.83)	$ (1.62)

The accompanying notes are an integral part of these financial statements.

GENETICS INSTITUTE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED MAY 31, 1992 AND MAY 31, 1991

(unaudited - in thousands)

	1992	1991 (restated - Note 1)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(37,461)	$(21,177)
Adjustments to reconcile net loss to net cash used by operating activities -		
Depreciation and amortization	5,260	5,041
Equity in losses of affiliates	269	-
Changes in assets and liabilities -		
Accounts receivable and unbilled services	5,792	6,577
Inventories and other current assets	1,308	(1,594)
Accounts payable	(1,263)	(2,245)
Accrued payroll and other liabilities	(778)	(290)
Reserve for patent-related damages	-	11,000
Other, net	(1,895)	(1,105)
Total adjustments	8,693	17,384
Net cash used by operating activities	(28,768)	(3,793)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of marketable securities	(29,472)	(4,000)
Proceeds from sale/maturity of marketable securities	10,363	16,215
Additions to property, plant and equipment	(3,544)	(4,318)
Investments in affiliates	-	(728)
Net cash (used) provided by investing activities	(22,653)	7,169
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock (Note 2)	300,000	-
Exercise of options, net of repurchases	1,506	3,279
Preferred stock dividends	(2,297)	(2,300)
Payments under capital lease obligations	-	(621)
Net cash provided by financing activities	299,209	358
Net increase in cash and cash equivalents	247,788	3,734
Cash and cash equivalents, beginning of the period	20,549	10,273
Cash and cash equivalents, end of period	$268,337	$14,007

The accompanying notes are an integral part of these financial statements.

GENETICS INSTITUTE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 1992
(unaudited)

1. Basis of Presentation

During fiscal 1991, in the course of a review of a Securities Act of 1933 filing of Genetics Institute, Inc. (the "Company") by the staff of the Securities and Exchange Commission (the "Commission"), certain issues were raised regarding the timing of the write-down taken during the first quarter of fiscal 1991 by the Company with respect to its equity investment in NeoRx Corporation ("NeoRx"). In its financial statements for years prior to fiscal 1991, the Company had recorded an unrealized loss for the difference between its original cost of the NeoRx investment and the market value of such investment as a valuation allowance against shareholders' equity rather than as a charge to income for each such year. During fiscal 1991, after consideration of the issues raised by the staff of the Commission and a re-examination of the facts surrounding the decline in the value of its NeoRx investment, the Company restated its consolidated financial statements (i) to record in fiscal 1990, 1989 and 1988 the write-down as a charge to income (included in other income, net), representing the quarterly decline, as applicable, in the value of the NeoRx investment as measured by its reported market value and (ii) to reverse the $7.3 million write-down reported in the first quarter of fiscal 1991.

The net loss applicable to common shares and the net loss per common share, as previously reported and as restated, are as follows (in thousands, except per share amounts):

	Year Ended November 30, 1990	Six Months Ended May 31, 1991
Net loss applicable to common shares -		
Previously reported	$ (27,473)	$ (30,760)
Adjustments related to write-down of NeoRx investment	(1,657)	7,283
As adjusted	$ (29,130)	$ (23,477)
Net loss per common share -		
Previously reported	$ (1.93)	$ (2.12)
Adjustments related to write-down of NeoRx investment	(0.11)	.50
As adjusted	$ (2.04)	$ (1.62)

The consolidated balance sheet as of May 31, 1992 and the consolidated statements of operations for the three and six months ended May 31, 1992 and May 31, 1991 and the consolidated statements of cash flows for the six months ended May 31, 1992 and May 31, 1991 are unaudited. In the opinion of management, all adjustments necessary for a fair presentation of these financial statements have been included. Such adjustments consisted only of normal recurring items. Interim results are not necessarily indicative of results for a full year. The consolidated financial statement should be read in conjunction with the Company's audited consolidated financial statements and related footnotes for the year ended November, 30, 1991.

GENETICS INSTITUTE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 1992
(unaudited)

2. Transaction with American Home Products

On September 19, 1991, the Company and American Home Products Corporation ("AHP") entered into an Agreement and Plan of Merger that was consummated on January 16, 1992 (the "Transaction"). Genetics Institute shareholders of record on January 16, 1992 received, for each share of Common Stock that they owned, $20.00 in cash or approximately $292.0 million in total from AHP and six-tenths of a newly-issued Depositary Share from the Company that is subject to a call option. Accordingly, in the Transaction, AHP acquired 40% of the Company's outstanding Common Stock for approximately $292.0 million. Subsequently, upon the exercise of outstanding warrants or the conversion of outstanding convertible exchangeable preferred stock, AHP will purchase for approximately $75.0 million an amount of shares (the "Conversion Shares") of Common Stock that would have been issued upon the exercise of outstanding warrants or the conversion of convertible exchangeable preferred stock but for the Transaction.

In connection with the Transaction, the Company issued 9,466,709 new shares (the "Additional Shares") of Common Stock to AHP for an aggregate purchase price of $300.0 million. As a result of the Transaction, the purchase of Additional Shares and the purchase of Conversion Shares, AHP will have acquired approximately 60% of the outstanding equity of the Company for aggregate consideration of approximately $666.0 million.

Under the terms of the call option, AHP has the right, but not the obligation, to purchase the outstanding Depositary Shares that it does not own, in whole but not in part, at any time until December 31, 1996, at per share call prices beginning at $50.00 per share for the period January 16, 1992 to March 31, 1992 and increasing by approximately $1.84 on a quarterly basis to $85.00 per share for the quarter ending December 31, 1996.

Independent of its right to call the Depositary Shares, AHP is permitted by the terms of its agreements with the Company to acquire additional Depositary Shares through open market purchases or privately negotiated purchases, provided that its aggregate holdings do not exceed 75 percent of the Company's outstanding equity subject to certain exceptions. As of May 31, 1992, AHP had purchased 869,500 additional Depositary Shares through such open market purchases bringing its total ownership position in Genetics Institute to approximately 67%.

The Company incurred a one-time charge of $30.0 million in transaction-related expenses during the quarter ended February 29, 1992.

The Company also recorded revenue of $2.0 million during the quarter ended February 29, 1992 representing an option fee resulting from an agreement with Wyeth-Ayerst Laboratories, the pharmaceutical division of AHP, relating to potential collaborations for the discovery and development of new small molecule-based drugs.

3. Supplemental Cash Flow Information

Interest paid was $28,000 and $51,000 for the six months ended May 31, 1992 and May 31, 1991, respectively.

4. Inventories

Inventories consisted of the following at May 31, 1992 and November 30, 1991, respectively (in thousands):

	May 31, 1992	November 30, 1991
Raw materials	$ 2,428	$ 2,161
Work in process	197	6,068
Finished goods	16,246	10,824
	$18,871	$19,053

Inventories at May 31, 1992 and November 30, 1991 include approximately $16.2 million and $16.5 million, respectively, of recombinant antihemophilic factor ("AHF"), a product for which product license applications have been filed with the U.S. Food and Drug Administration ("FDA") and certain foreign regulatory agencies. In December 1991 the Blood Products Advisory Committee of the FDA recommended that Recombinate ™ brand AHF, which was developed jointly by Genetics Institute and Baxter International Inc. ("Baxter"), be approved for sale to previously treated hemophilic patients. The Committee also recommended approval of a recombinant AHF product developed by a competitor, Miles, Inc. ("Miles"), under license from Genentech Inc. for both previously treated and untreated patients. The realization and classification of AHF inventories is dependent upon the occurrence and the timing of future events, including the receipt, if any, of regulatory approvals, commercial sales, if any, and the outcome of litigation relating to AHF described in Note 6.

5. Fiscal 1991 First Quarter Charge

During March 1991, in a patent infringement proceeding involving Amgen, Inc. ("Amgen"), the U.S. Court of Appeals for the Federal Circuit (the "CAFC") reversed a December 1989 decision by the U.S. District Court of Massachusetts and held that the Company's patent claims for erythropoietin ("EPO") were invalid and Amgen's patent was held to be valid and infringed. As a result, the Company recorded an $11.0 million charge in the first quarter of fiscal 1991 that is intended to cover costs of EPO inventories that are no longer recoverable as a result of the patent decision, as well as estimated costs associated with the ultimate resolution of potential damages that may be payable to the competitor and/or its licensee. During October 1991 the U.S. Supreme Court denied the Company's petition to overturn the lower court rulings.

During August 1991 the U.S. District Court for the District of Massachusetts granted to Amgen an attachment in the amount of $25.0 million against certain real estate owned by the Company to secure potential future damages which will be determined in subsequent legal proceedings before this same court that are expected to commence in fiscal 1992.

6. Contingencies

As part of the Company's supply agreement for EPO (the "Supply Agreement") with Boehringer Mannheim GmbH, the Company's licensee in Europe ("Boehringer"), Boehringer agreed to indemnify the Company against damages exceeding one-third of the Company's manufacturing revenues (approximately $34.0 million) arising from the Company's manufacture of EPO for Boehringer under the Supply Agreement. Boehringer has informed the Company that, while it will honor its indemnity agreement with the Company, Boehringer disputes the scope and extent of its indemnification obligations and may elect to seek arbitration before making any indemnity payment to the Company under the Supply Agreement. If this matter is arbitrated and it is found that Boehringer's indemnity does not extend to all damages that may be awarded against the Company in excess of one-third of its manufacturing revenue, the Company's damages could substantially exceed the $11.0 million charge to earnings and, therefore, have a material adverse effect upon the Company's results of operations and financial condition. However, while no assurance can be given, the Company believes, based on the advice of outside counsel, that Boehringer's indemnity obligation is enforceable by the Company. Accordingly, the Company also believes that the likely amount of any unindemnified damages would not significantly exceed the charges taken to earnings in the first quarter of fiscal 1991 and, therefore, would not have such material adverse effect upon the Company.

During fiscal 1991, Ortho Pharmaceutical Corporation ("Ortho") and certain Ortho affiliates filed lawsuits against Boehringer for patent infringement in Germany and Switzerland, based on a European patent previously issued to Kirin-Amgen, Inc. ("Kirin-Amgen"), Ortho's licensor. Boehringer and others have filed formal oppositions against this European patent and the European Patent Office has commenced a review of the patent in light of the oppositions. Also during fiscal 1991, Boehringer filed a lawsuit against Ortho for patent infringement in Germany, based on a European patent previously issued to the Company. During fiscal 1992, Ortho and certain Ortho affiliates filed a lawsuit against Boehringer for patent infringement in Italy, and Boehringer and the Company filed additional lawsuits against Ortho and certain Ortho affiliates in Germany and Switzerland. In May 1992, a German court ruled that Boehringer's manufacture and sale of EPO infringes a patent issued to Kirin-Amgen in Europe and, upon execution of judgement, Boehringer should cease and desist from the manufacture and sale of EPO in Germany. This order is not effective until Ortho requests that the order be executed and posts financial security in the amount of 15.0 million deutschmarks. Ortho has indicated that it will not file a request for execution before November 1992. Boehringer filed a request for stay of execution in a separate action which is currently pending before the German court. In May 1992, the German court also ruled that Ortho's sale and distribution of EPO in Germany infringes the Company's first EPO patent, but stayed its ruling pending the outcome of the oppositions filed to the validity of the Company's first EPO patent before the European Patent Office.

In fiscal 1987, Baxter and Travenol Laboratories, Inc. ("Travenol") were named as defendants in a civil action in the U.S. District Court for the District of Delaware (the "Delaware Action") by Scripps Clinic and Research Foundation ("Scripps") and Rorer Group, Inc. ("Rorer"). The Delaware Action arises from the plaintiffs' contention that Baxter, which is the Company's licensee for AHF, and Travenol have infringed a patent issued to Scripps and licensed to Rorer concerning purified AHF. The plaintiffs are seeking injunctive relief, unspecified monetary damages and other relief. In fiscal 1989, the U.S. District for the Northern District of California, in a proceeding commenced by Rorer against Genentech and others (the "California Action"), invalidated and held unenforceable all claims

of the Scripps patent that would cover the Company's AHF product. Rorer appealed the decision of the California court to the CAFC. In early fiscal 1991, the CAFC reversed the California court in part and remanded certain of the issues relating to the validity and enforceability of the Scripps patent to the California court for trial. In May 1992, the court in the Delaware Action ruled that separate trials will be held on the issues of infringement liability and damages and set the first trial date for September 1992. While certain of the issues addressed by the CAFC in the California Action are similar to those to be addressed in the Delaware Action, the Company believes that Baxter and Travenol will have additional defenses available to them in the Delaware Action. However, no assurances can be given as to the outcome of the Delaware Action. An unfavorable outcome could have a material adverse effect on the Company's consolidated results of operations.

The Company and its licensees are also engaged in the following patent proceedings: (i) a patent interference declared by the United States Patent and Trademark Office in May 1990 among the GM-CSF patent applications of the Company assigned to Sandoz, Ltd., Immunex Corporation and others; and (ii) a patent interference proceeding, to which Chiron Corporation became a party in September 1991, declared between the Company and Genentech, Inc. concerning the AHF patents which are cross-licensed between Baxter and Genentech, Inc. Any disposition of these proceedings in a manner unfavorable to the Company or its licensees could adversely affect the Company's future consolidated results of operations. There are various other legal proceedings against the Company which are not expected to have a material adverse effect on the Company.

Finally, the alleged class action complaints that were filed with respect to the Company's Transaction with AHP in the first quarter of fiscal 1992 were voluntarily dismissed with prejudice by the plaintiffs. A final confirmation of the dismissal is currently pending before the U.S. District Court for the District of Massachusetts.

7. Significant Affiliate

The Company and The Wellcome Foundation Limited and Burroughs Wellcome Co. ("Wellcome") formed a joint venture, ("WelGen"), for the large-scale manufacture of biotechnology-based human pharmaceuticals.

The joint venture facility was designed to accommodate up to five individual manufacturing suites. An initial manufacturing suite dedicated to the production of Wellcome products ("the Wellcome Suite") commenced operation during fiscal 1991. As a result, and in accordance with profit and loss provisions of the WelGen Manufacturing Partnership Agreement ("the Partnership Agreement"), Wellcome began bearing substantially all of the operating costs of WelGen effective August 1, 1991, and will continue to do so as long as the Wellcome Suite is the only manufacturing suite in existence in WelGen and it is manufacturing products on behalf of Wellcome. At May 31, 1992 and May 31, 1991, the Company had contributed $28.0 million and $27.4 million, respectively, of capital to WelGen to fund a portion of the general construction and start-up cost of the joint venture. Wellcome funded 100% of the fit-up cost of the Wellcome suite. The Company expects that significant amounts of additional capital will be required to equip the remaining suites of the facility if and as they are needed. Equity ownership positions of each partner in WelGen generally correspond to their relative capital contributions. At May 31, 1992 and May 31, 1991, the Company had an approximate 25%

and 30% equity interest, respectively, in WelGen. The Company has recognized aggregate equity in the undistributed losses of WelGen totaling $2.0 million through May 31, 1992 in accordance with profit and loss sharing provisions of the Partnership Agreement. Summarized financial information for WelGen as of May 31, 1992 is as follows (in thousands):

Statement of Operations:	
Revenue	$ 4,511
Operating expenses	4,151
Net income	360
Balance Sheet:	
Current assets	$ 21,328
Total assets	106,116
Current liabilities	1,504
Partners' equity	104,612

Wellcome and the Company are presently discussing the possible acquisition by Wellcome of the Company's entire partnership interest in WelGen. While it is possible that the sale of its WelGen interest could result in a loss to the Company, the amount of such loss is not presently estimable.

8. Warrants

In May 1991 SciGenics, Inc. and the Company completed an initial public offering of 2,090,909 units, each unit consisting of one share of callable common stock of SciGenics, Inc., and one warrant to purchase one share of the Company's Common Stock at an exercise price of $35.92 per share, exercisable at any time from December 1, 1992 through May 31, 1996. SciGenics received net proceeds of $42.0 million from the unit offering. These funds will be used to engage the Company to conduct research and development on macrophage colony stimulating factor ("M-CSF") for North America and embryonic growth and regulatory proteins ("EGRP's") worldwide in accordance with a development contract. The Company has the option to reacquire the rights for either program or to acquire all of the shares of SciGenics callable common stock, in each case, for predetermined amounts during specified future periods. The Company has committed, commencing December 1, 1991, to match SciGenics funds expended toward development and clinical trials conducted in the M-CSF program up to a maximum of $20.0 million. The Company may terminate this commitment, in which event, the program purchase option with respect to the M-CSF program and the stock purchase option will terminate. The value of the warrants ($8.3 million), representing an incentive to enter into the development contract, is included in Other Assets and is being amortized as a charge to operating expenses ($0.7 million and $1.1 million respectively for the three and six months ending May 31, 1992 and $3.8 million in the aggregate) on the basis of the ratio of revenues received by the Company from SciGenics each period to projected total revenues to be received.

In September 1991 the units separated into their two components and the warrants became immediately exercisable. As noted above, the units were to have separated and the warrants were to have become exercisable on December 1, 1992. However, the separation date was advanced due to the Company's announcement of its execution of the merger agreement with AHP as summarized in Note 2. The expiration date of the warrants is unaffected by the Transaction and remains May 31, 1996. From and after January 16, 1992, the closing of the Transaction, the warrants are exerciseable for the same consideration received by holders of the Company's Common Stock in the Transaction as discussed in Note 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Genetics Institute, Inc. is engaged in discovering, developing and commercializing therapeutic products using recombinant DNA and related technologies. The Company's first products which treat anemia, hemophilia and low white blood cell counts, are or will be marketed through collaborations with pharmaceutical marketing partners. The Company expects to receive royalties on the sales of these products and manufacturing revenue from the anti-hemophilia product. The Company is currently developing a portfolio of proprietary products for the treatment of cancer, infectious disease, heart disease, bone growth and repair and platelet deficiencies induced by cancer therapy, which it plans to market itself in the U.S. The Company's ongoing discovery research programs are focused in several areas including blood cell regulation, tissue growth and repair, control of inflammation and modulation of immune response.

The Company's consolidated results of operations have fluctuated from period to period and may continue to fluctuate in the near-term as a result of changes in the timing and composition of funding under its collaborative research and development agreements, royalty income, interest income, the timing of production and shipment of bulk protein products and the amount of expenditures committed to self-funded research and development programs.

Significant volatility has been associated with the business and operations of biopharmaceutical companies. Announcements by the Company or its competitors concerning technological innovations, new commercial products, results of clinical trials, developments concerning patents or proprietary rights, results of litigation, the expense and time associated with obtaining requisite government approvals, and public concern as to the safety of biopharmaceuticals may have a significant impact on the Company's business.

The Company and American Home Products Corporation ("AHP") entered into a transaction (the "Transaction") through which AHP has acquired a majority interest in the Company effective January 16, 1992 (see Note 2 of Notes to Consolidated Financial Statements). The Company has incurred a one-time charge of $30.0 million in transaction-related expenses during the first quarter of fiscal 1992 in relation to consummation of the Transaction.

In February 1992, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes". The Company intends to adopt the new standard before November 30, 1994 but has not yet determined the timing or method to be used in adoption. The Company does not expect the new standard to have a significant impact on future consolidated results of operations.

Results of Operations

Restatement. During fiscal 1991, the Company restated its historical consolidated financial statements to reflect in fiscal 1990, 1989 and 1988 the write-down of its equity investment in NeoRx Corporation previously reported in the first quarter of fiscal 1991. As a result of this restatement, the Company's net loss applicable to common shares for fiscal 1990, 1989 and 1988 is $31.9 million, $31.8 million and $15.0 million, respectively, rather than $27.5 million, $29.6 million and $11.2 million, as previously reported. The Company's restated net loss applicable to common shares for the first quarter of fiscal 1991 is $17.4 million, rather than $24.7 million as previously reported. The amounts of the write-down reported in the Company's restated consolidated statements of operations for fiscal 1990, 1989 and 1988 are based on the declines in the market value of NeoRx common stock during such periods. The restatement does not affect the Company's previously reported revenues or losses from operations in any period.

Three and Six Months Ended May 31, 1992 and May 31, 1991. The Company's revenues were primarily derived from payments for research and development activities, including the supply of bulk product, under its agreements with various corporate sponsors and from royalties resulting from the sale of EPO by marketing partners in Japan and Europe. Revenues increased 11%, or $1.5 million, from the second quarter of fiscal 1991 to the second quarter of fiscal 1992 and 29% or $7.6 million from the first six months of fiscal 1991 to the first six months of fiscal 1992. The second quarter and first half increases reflect increasing royalties earned on sales of EPO by marketing partners in Japan and Europe. In addition, the first half increase reflects higher payments from SciGenics, Inc. for research and development activities principally relating to macrophage colony stimulating factor ("M-CSF"), and payment under an option agreement with Wyeth-Ayerst Laboratories, the pharmaceutical division of AHP, relating to potential collaborations for the discovery and development of new small molecule-based drugs.

Operating expenses, consisting primarily of research and development costs, increased 22% or $4.5 million from the second quarter of fiscal 1991 to the second quarter of fiscal 1992 and increased 23% or $8.9 million from the first six months of fiscal 1991 to the first six months of fiscal 1992, exclusive of one-time charges of $30.0 million for AHP Transaction-related costs in the first quarter of fiscal 1992 and $11.0 million for potential patent-related damages in the first quarter of fiscal 1991. The three and six month increases primarily result from higher staffing levels in the research and development areas of the Company and higher pre-clinical and clinical expenses. In the first six months of fiscal 1992, approximately 52% ($24.0 million) of the Company's total operating expenses, exclusive of the one-time charge of $30.0 million and amortization of warrants of $1.1 million, were attributable to self-funded research and development programs compared with 63% ($23.8 million) in the first six months of fiscal 1991.

Other income, net increased 312%, or $2.9 million from the second quarter of fiscal 1991 to the second quarter of fiscal 1992 and 214% or $4.0 million from the first six months of fiscal 1991 to the first six months of fiscal 1992. This increase reflects higher interest income resulting primarily from the proceeds received in January 1992 from the issuance of Common Stock to AHP in the Transaction.

Legal Proceedings

The Company is engaged in a number of legal proceedings. See Notes 5 and 6 of the Notes to Consolidated Financial Statements which are incorporated by reference herein.

Liquidity and Capital Resources

The Company's net working capital at May 31, 1992 was $341.7 million (including approximately $9.0 million in marketable securities which has been pledged as collateral pursuant to certain capital and operating lease considerations) compared with $88.1 million at November 30, 1991. This increase in working capital was primarily due to the consummation of the Transaction with AHP.

After giving effect to the Transaction with AHP, the Company expects that its available cash, together with interest income, funding under development agreements, royalty income and lease and debt financing arrangements will be sufficient to finance its minimum working capital and capital requirements for the foreseeable future. Over the next several years, the Company's working capital and capital requirements will be subject to change depending upon numerous factors including: changes in the amount of

expenditures committed to self-funded research and development programs; results of research and development activities; competitive and technological developments; the levels of resources which the Company devotes to the expansion of its clinical testing capabilities and establishment of marketing capabilities; the timing and cost of obtaining required regulatory approvals for new products; changes in the Company's relationships with marketing partners; the outcome of future legal proceedings relating to damages required to be paid by the Company as a result of the CAFC decision and the timing and amount of indemnity payments by Boehringer to the Company. See "Legal Proceedings" above.

Part II - Other Information

Item 1. Legal Proceedings

See Notes 5 and 6 to the Consolidated Financial Statements provided in Part I of this Quarterly Report on Form 10-Q, which Notes are hereby incorporated by reference.

Item 6. Exhibits and Reports on Form 8-K

(a) No exhibits are filed herewith.

(b) No reports on Form 8-K were filed by the registrant during the second fiscal quarter ended May 31, 1992.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GENETICS INSTITUTE, INC.
(Registrant)

Date: July 10, 1992

Gabriel Schmergel

Gabriel Schmergel, President and
Chief Executive Officer
(Principal Executive Officer)

Date: July 10, 1992

Garen G. Bohlin,
Executive Vice President,
(Principal Financial Officer and
Principal Accounting Officer)

Part II - Other Information

Item 1. Legal Proceedings

See Notes 5 and 6 to the Consolidated Financial Statements provided in Part I of this Quarterly Report on Form 10-Q, which Notes are hereby incorporated by reference.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GENETICS INSTITUTE, INC.
(Registrant)

Date: July 10, 1992

/s/ Gabriel Schmergel
Gabriel Schmergel, President and
Chief Executive Officer
(Principal Executive Officer)

Date: July 10, 1992

/s/ Garen G. Bohlin
Garen G. Bohlin,
Executive Vice President,
(Principal Financial Officer and
Principal Accounting Officer)